

# **TEN YEARS OF BUDGET REVIEWS IN CESEE COUNTRIES**

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# Purpose of the study

- Overview of the OECD reports
  - Assessments
  - Recommendations
- Overview (survey) of the important reforms in PFM institutions since publishing the OECD reports
- Comparisons
  - Cross evidence (assessments, recommendations, survey)
  - Cross country
  - Cross PFM activities

# Limitations

- Large time span (2004-2012) of different OECD reports
- Stability of reviewers doctrine (focus)
- Large country differences in starting macroeconomic and PFM system development
- Drastic change in macroeconomic conditions after 2008
- Feedbacks between actual fiscal performances and PFM activities are not evaluated due to the study terms of reference

# Potential improvements

- Including available OECD survey data from 2007 on PFM activities in CESEE countries to synchronize pre-crisis country information
- Preparing a detailed survey for 2012 (or 2013), similar to that organized for OECD member countries, to get more succinct and in-depth information on the after crisis PFM activities in CESEE countries
- Using more comprehensive contact information with the SBO of CESEE countries
- Extending the sample of countries, simultaneously incorporating OECD and non-OECD CESEE countries, to assess how implementation of the OECD best-practice standards depends on economic development, institutional infrastructure and budget processes
- Modeling feedback between fiscal performances and PFM activities

# Transformation of the evidence

- Analyzed evidence consists of assessments and recommendations from OECD reports and (this study) survey of the developments after reports
- To make assessments, recommendations and survey facts more clear-cut and, therefore, amenable for stylization and adequate statistical explanatory analysis, all three segments of the evidence are transformed by the three step procedure
- In the first step, original evidence is condensed into bullet-type summaries
- In the second step, condensed evidence is simplified and classified, according to the stylized PFM activities structure, into 35–38 items
- In the third step, the stylized PFM structures are reorganized (partly aggregated) into a smaller number (12–15) of PFM activities so that same classification can be used for all three kinds of the evidence

# Presentation of the evidence

- Stylized PFM activities are graphically presented in figures, using dendrograms (cluster analysis) and distance diagrams (multidimensional scaling)
- Both types of diagrams are used to reveal (di)similarities of country PFM activities (institutions) profiles
- Smaller number of aggregated PFM activities are presented in radar graphs which are used for comparison of the intensities (country frequency) of PFM activities
- These diagrams are explicitly analyzed and commented in the study

# Dendrograms and MDS distance diagrams

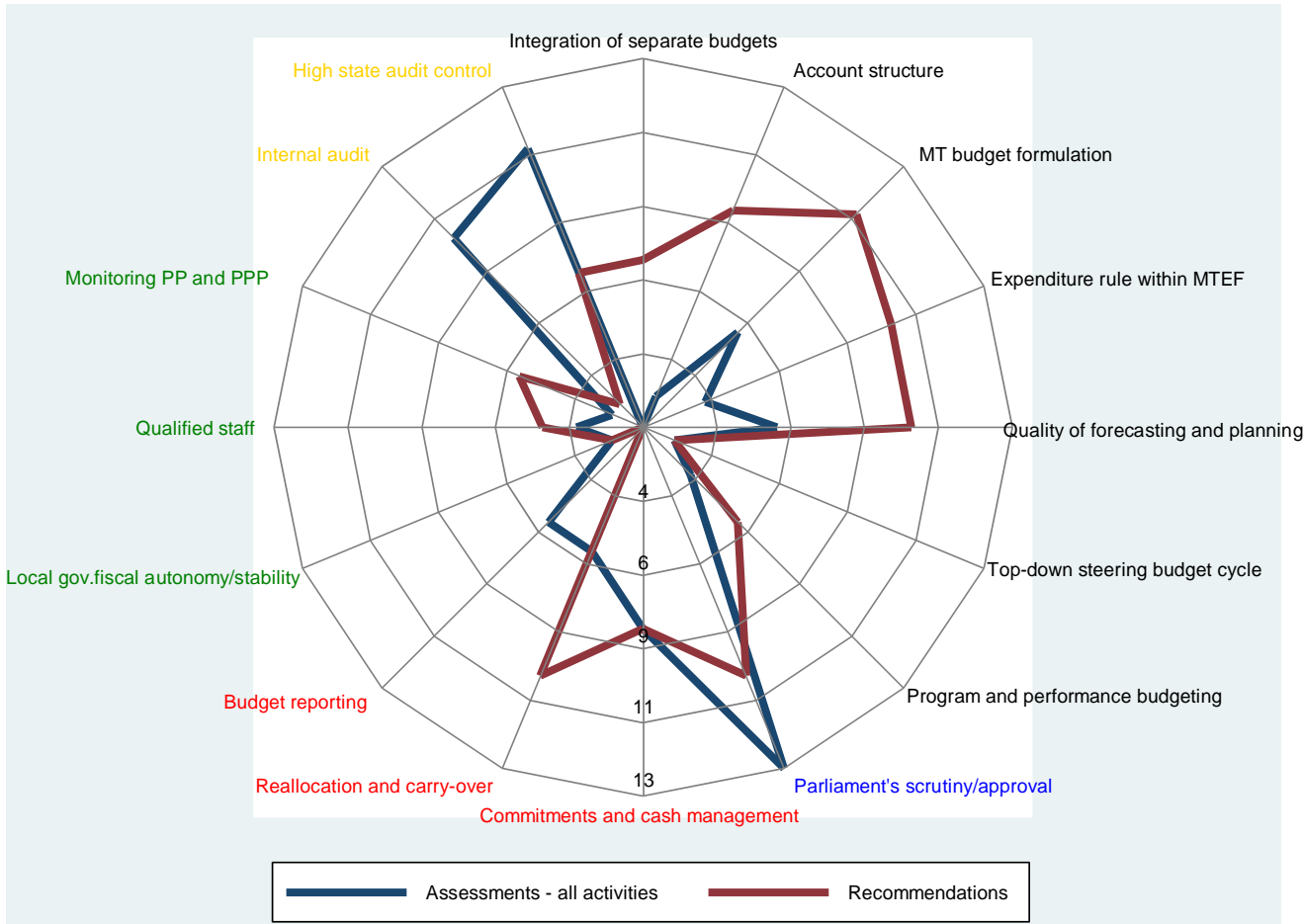
- Dendrograms (cluster analysis) are used to detect similarities between groups of country PFM activity profiles
- Multidimensional scaling distance diagrams complement information from dendrograms. They visualize the pattern of country PFM activity profiles and enable correct statistical testing, which is not part of the study
- Radar graphs are used for comparison of PFM activities structure of country frequency between segments of evidence



# Assessments and recommendations

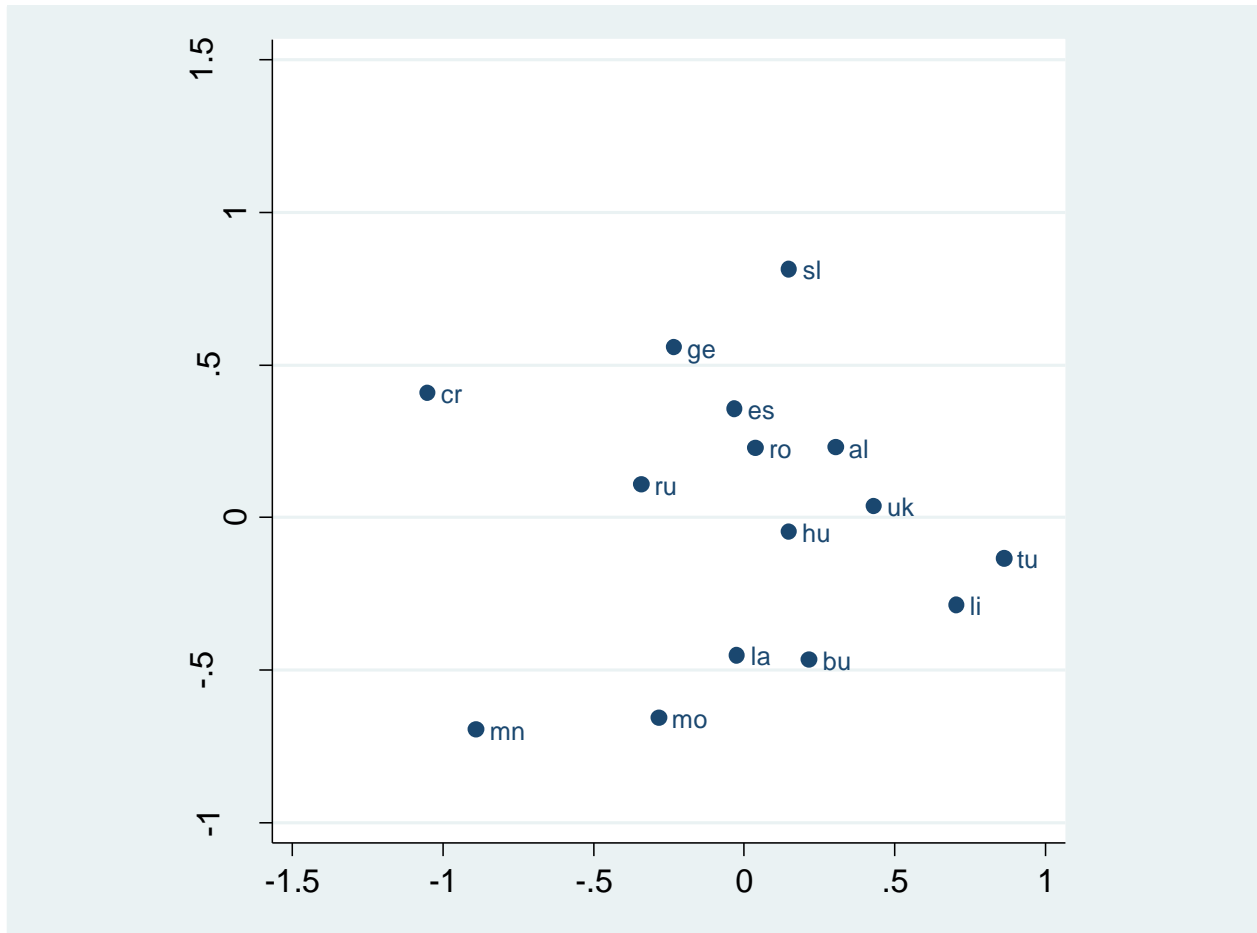
- According to the assessments, countries are on the improvement track in general government budgeting; it is, however, much weaker in the areas crucial for the OECD best-practice standards
- Countries differ in completed budget activities more than in all (completed and partly completed) activities, which indicates that initial reform commitment does not necessarily signal their rapid and efficient finalization
- Changes in budget execution, parliamentary approval and audit activities proved to be less complicated and socially demanding than improvements in budget formulation and preparation activities
- The recommendations were concentrated in the area of the budget formulation (medium-term budget frameworks, efficient fiscal forecasting, fiscal rules and top-down budgeting) and much less on the budget execution (reallocation and carry over of spending items, appropriation commitment controls and cash management) and parliamentary approval processes
- The recommendations for program and performance budgeting activity were rather lukewarm

# Assessed all PFM activities and recommendations



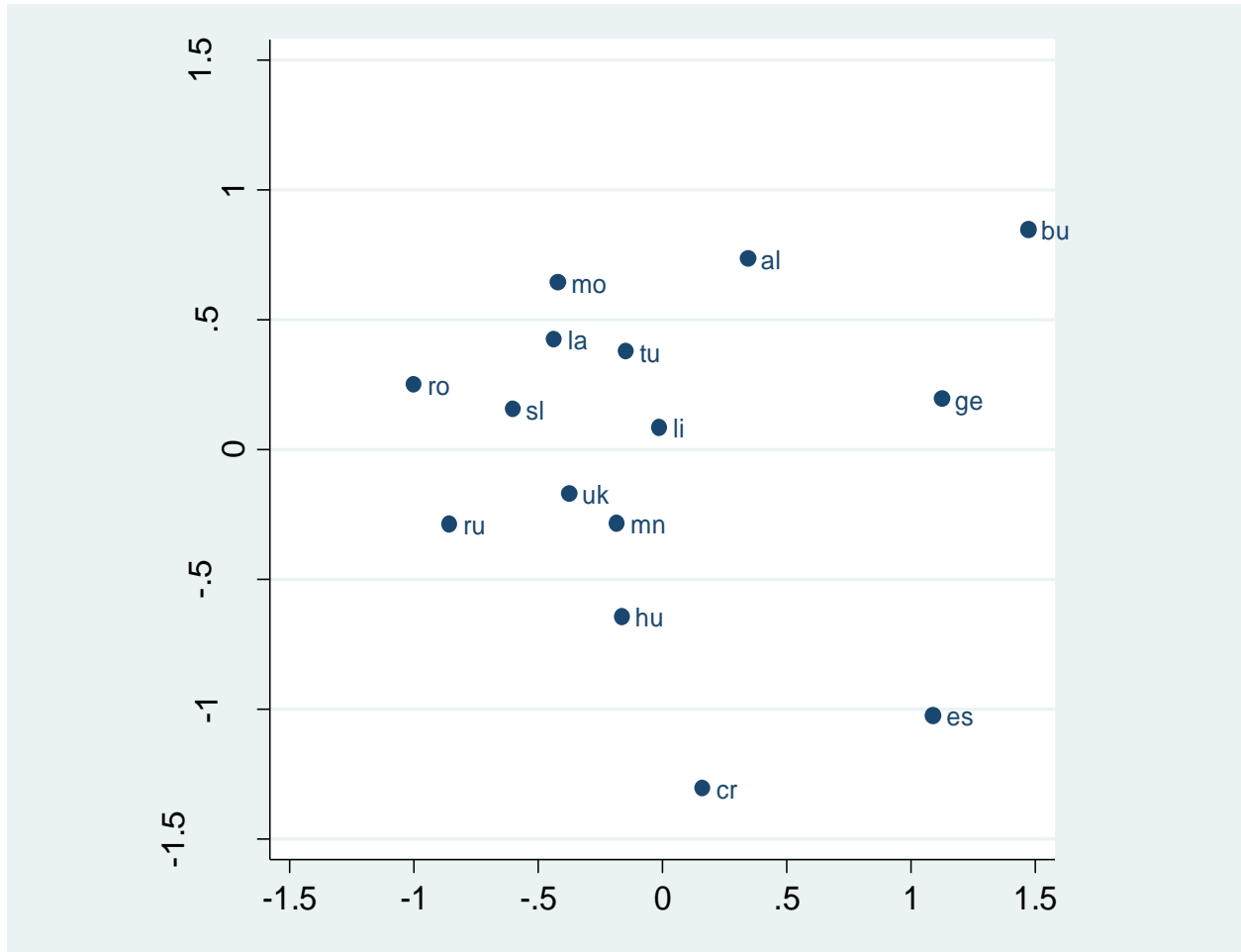
- Source: OECD reports; own calculation
- Note: Country frequency indicated; recommendations; assessments of completed and partly completed activities

# MDS distance diagram - assessed all PFM activities



- Source: OECD reports; own calculations
- Note: Multidimensional scaling; Jaccard similarity; method nonmetric

# MDS distance diagram- recommended PFM activities

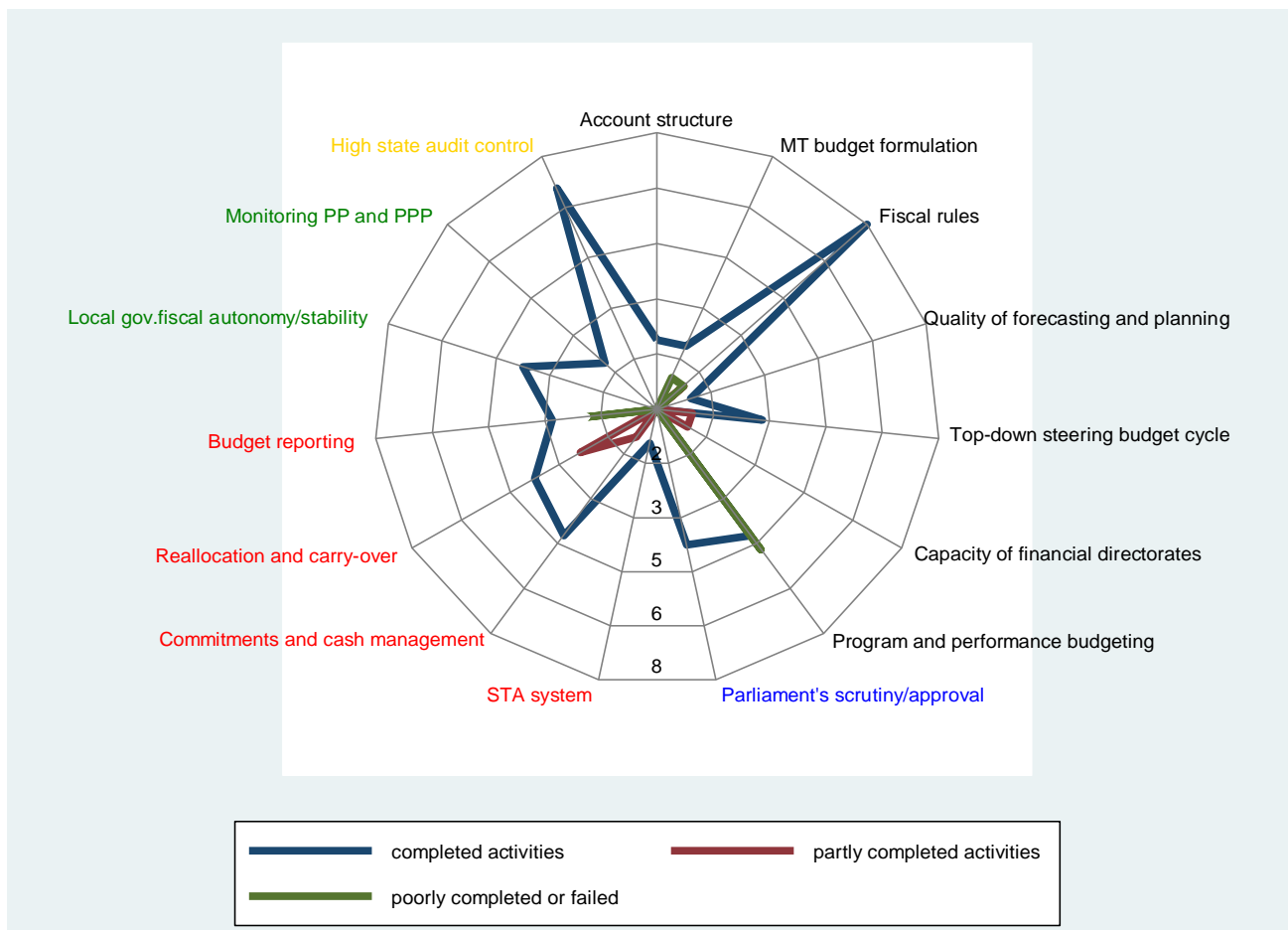


- Source: OECD reports; own calculations
- Note: Multidimensional scaling; Jaccard similarity; method nonmetric

# Survey

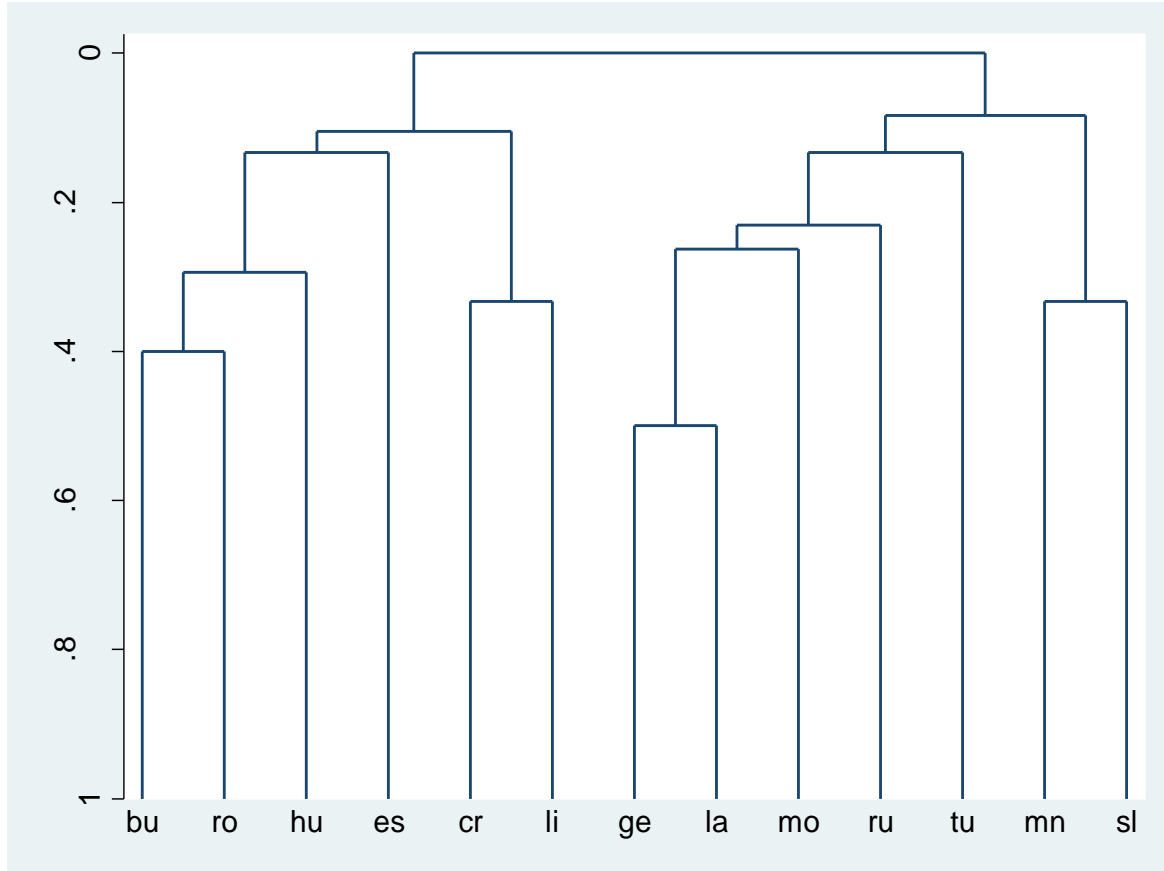
- After the OECD reviews, the main changes have been made in implementing fiscal rules and in empowering follow-up procedures of the external audit decisions. Noticeable improvements have also been achieved in appropriation commitment controls and cash management, reallocation and carry over of spending items, and parliamentary approval activities
- Reforming institutions towards implementation of performance and program-oriented processes have been also successful in several (40%) CESEE countries; however, at the same time, in almost half of countries same reforms have failed or had poor results
- Reforms engaging in crucial activities (institutions) for the sustainable fiscal consolidation (medium-term expenditure framework, baseline estimation and single treasury account) have been rare or poorly implemented
- The survey results show that the activities (institutions) of the PFM process that could be launched and/or implemented quickly, are more robust (less risky) to implement and are simple to master have had priority in the PFM new developments
- The pattern of successful PFM activity implementation differed significantly among CESEE countries. There was hardly any PFM activity pattern similarity in groups of more than three countries. The similarity of poorly implemented PFM activities was much higher

# Survey - completed, partly completed and failed activities



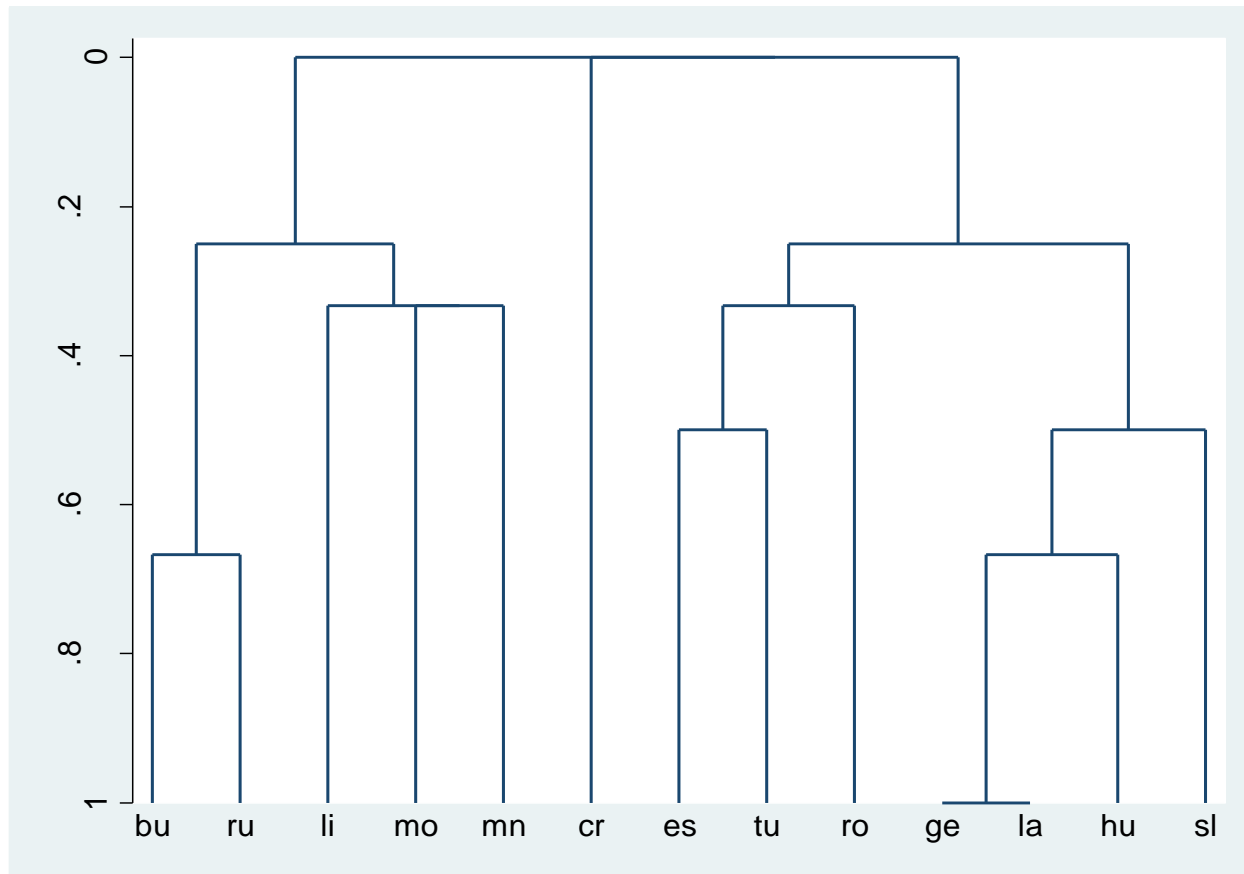
- Source: Survey; own calculations
- Note: Country frequency indicated; completed activities; partly completed activities; failed activities

# Survey - country profiles similarity of completed PFM activities



- Source: Survey; own calculations
- Note: Cluster analysis; Jaccard similarity; complete linkage

# Survey - country profiles similarity of failed PFM activities



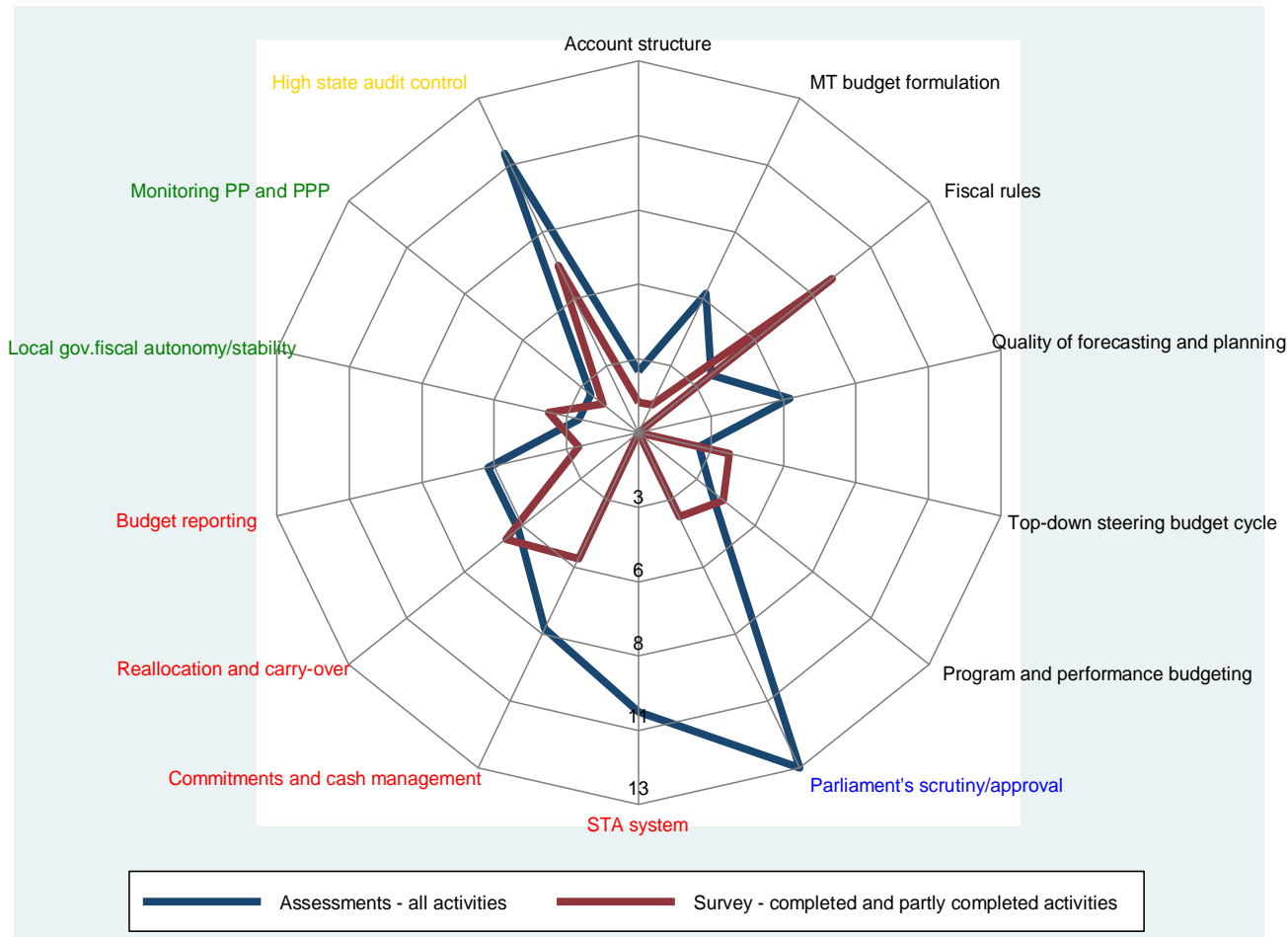
- Source: Survey; own calculations
- Note: Cluster analysis; Jaccard similarity; complete linkage



# Assessments and recommendations versus survey

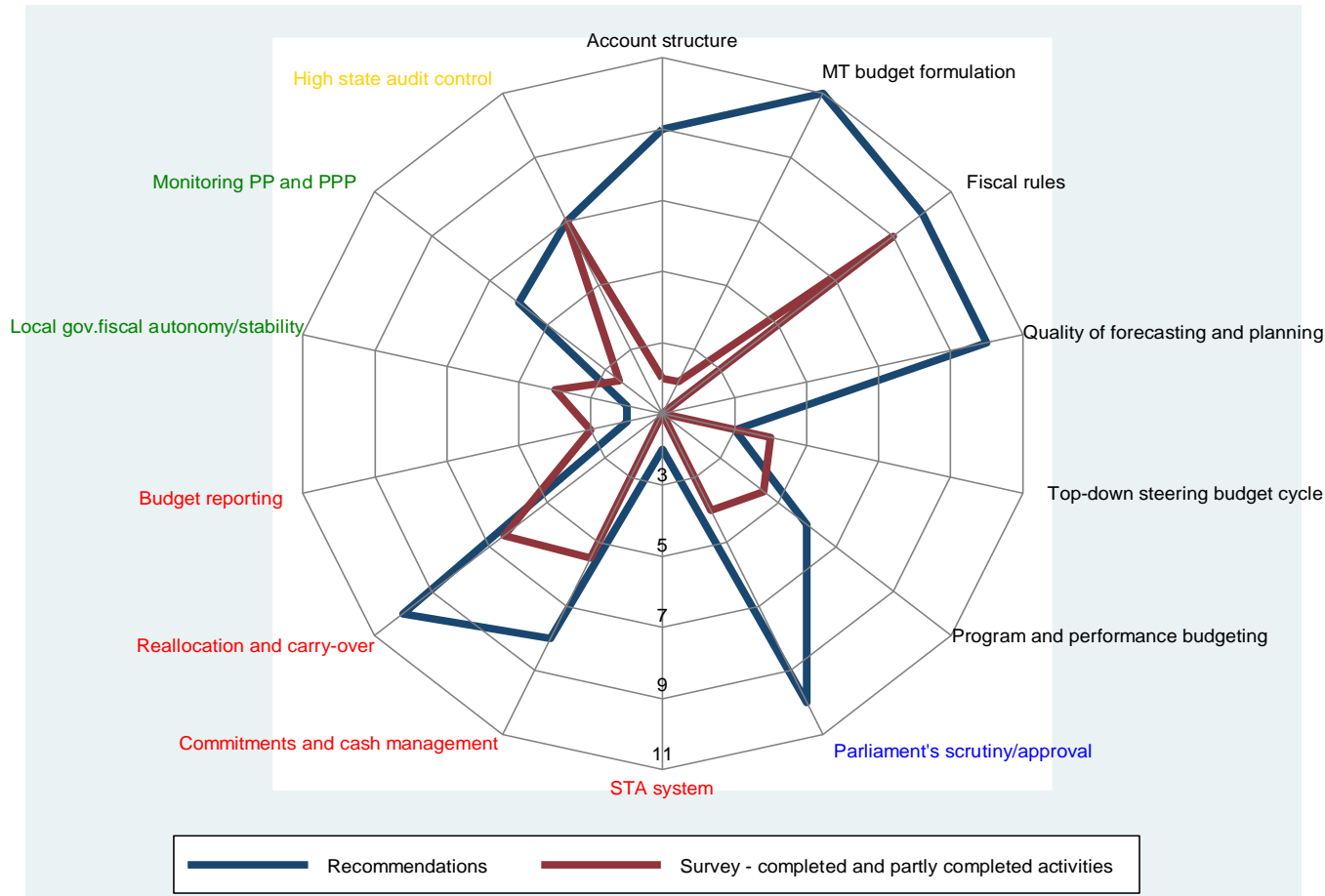
- PFM activities launched after OECD reports at least partly follow the activity structure recommended in those reports. Two groups of activities (from budget execution and processes of parliamentary approval) are the same as in the recommendations, while fiscal rule implementation is the only one from the budget formulation group
- Institutions important for long-term sustainable fiscal performance (medium-term budget formulation and quality of forecasting and planning) were indicated in the recommendations; but there is almost no successful implementation of any of these PFM process activities in the aftermath.
- In the survey, the reported implementation intensity of the procedures for the external audit decisions enforcement is relatively much higher than in the OECD report recommendations
- Frequency pattern of the implementation of PFM activities in the survey is much more similar to the corresponding pattern of the recommended activities than the assessed ones. The recommendations obviously took into consideration not only assessed situations, but also other constraints, which significantly shape the implementation time profile for each specific PFM process activity

# OECD assessments and survey – all activities



- Source: Survey; OECD reports; own calculations
- Note: Country frequency indicated; assessments – all activities; survey - completed and partly completed activities

# OECD recommendations and survey- all activities



- Source: Survey; OECD reports; own calculations
- Note: Country frequency indicated; recommendations; survey – all (completed and partly completed) activities